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Farmers' Mutual Fire Insurance Companies in West Virginia

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AGRICULTURAL EXPERIMENT STATION

COLLEGE OF AGRICULTURE, FORESTRY, AND HOME ECONOMICS

WEST VIRGINIA UNIVERSITY

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FARMERS' MUTUAL FIRE INSURANCE COMPANIES IN WEST VIRGINIA ¹

FARMERS' MUTUAL FIRE INSURANCE represents the oldest type of organized cooperative endeavor in West Virginia. The oldest active company—The Farmers and Mechanics Mutual Fire Insurance Company of West Virginia—is situated at Martinsburg. It has operated for more than 60 years, having been incorporated in 1877. In all, 23 farmers' mutual fire insurance companies have been organized in the state. Of this number 15 were in active operation in 1940. Thirteen of the companies active in 1940 reported that since beginning business they have collected \$5,686,000 in premiums, assessments, and dues. During this period they paid out \$3,140,000, or 55 percent of all income, in fire losses. Data presented in Table 4 (p. 10) indicate that the amount of mutual fire insurance in force in the state in 1939 totaled \$76,801,000. This insurance was held by nearly 37,000 members of which approximately 70 percent were farmers. These facts show that such companies have been an important institution in servicing farmers in West Virginia.

In general, farmers' mutual fire insurance companies have developed and grown because of certain advantages which they offer members. These advantages are found in one or more of the following factors: (1) adequate protection, (2) effective service, and (3) savings resulting from a reduction in rates or from low assessments.

Experience has demonstrated the soundness of segregating agricultural, and for that matter urban, risks that are owned or controlled by people of better than average moral character and who are willing to assume a limited portion of their own risk. Furthermore, it has been shown that, by setting up their own mutual companies, members are in a better position to obtain the type of protection and kind of service they desire. Control and management of farm mutuals by the members using

¹Acknowledgment is expressed to all secretaries of farmers' mutual fire insurance companies in the state for furnishing data and information relating to the companies with which they are affiliated; to Mr. Blaine Engle and Mr. J. A. Gist, president and secretary-treasurer, respectively, of the West Virginia Association of Mutual Insurance Companies, for advice and assistance; to Mr. Harlan Justice and Mr. D. B. Smith of the Insurance Department, Auditor's Office, State of West Virginia, for suggestions and for cooperation in furnishing operating statements and balance sheets for the farmers' mutual fire insurance companies operating in the state; and to Mr. V. N. Valgren, Principal Agricultural Economist of the Cooperative Research and Service Division of the Farm Credit Administration, for reading this study in preliminary form and for offering helpful suggestions.

them is in accordance with well-established principles of cooperation. It enables policyholders to obtain for themselves any consequent savings resulting from the ownership and operation of such companies. It is recognized, however, that farmers' mutual fire insurance companies are but a means to an end. That end (protection and service considered) is cheaper insurance. To the extent that farm mutuals effect further economies in operation, there is reason to believe that their importance in the insurance field will be maintained and in some instances may be increased.

Through nearly a century of operation, farmers' mutual fire insurance companies in the United States have developed reasonably well established practices with respect to principles of protection and service. They are, however, continually confronted with changing problems in operating practices. This suggests the consequent need for devising, adopting, and checking on new techniques in operating procedure. Improvements in these techniques will help increase the efficiency and the effectiveness of these companies.

PURPOSE AND METHOD OF STUDY

No previous study of farmers' mutual fire insurance companies has been made by the Agricultural Experiment Station of the West Virginia College of Agriculture. It is believed that consideration of the efficiency and effectiveness of the operating practices followed by farm mutuals will be helpful in enabling them to set up definite standards of performance designed to compare the results of operating practices with those followed by other farmers' mutuals. Furthermore, similarity of operating problems confronting many of these companies suggests that some of the findings of this study may apply to farm mutuals in other states. Attention also is given to the historical development of these insurance companies in West Virginia.

Some of the many problems confronting farmers' mutual fire insurance companies in West Virginia include:

1. Wide divergence concerning such operating practices as:
 - a. kinds of property insured and hazards covered
 - b. methods of classifying risks
 - c. methods of determining and levying premiums, assessments, and dues
 - d. term of policies
 - e. reinsurance and concurrent insurance
 - f. inspection methods
 - g. size of territory served
 - h. salary and compensation schedules
 - i. general operating practices

2. Unnecessary and costly duplication in the number of farm mutuals operating in some communities.
3. No mutuals performing adequate service in some sections of other communities, thus prohibiting some farmers from taking advantage of savings possible through mutual fire insurance. (Only one farmer out of four has mutual fire insurance in West Virginia while one farmer out of two has mutual fire insurance in the United States.)
4. No evidence of effectively relating general operating practices to solutions possible through inter-company cooperation.

To obtain information relating to these problems, all farmers' mutual fire insurance companies in the state were interviewed relative to methods of organization and operation. Complete financial records for each company, including operating statements and balance sheets, were obtained from the Insurance Department of the State Auditor's Office. In addition, approximately 600 farmers in the state furnished information about farmers' mutual fire insurance companies. Attention was given to such matters as: the extent to which these farmers used mutual fire insurance, acquaintanceship with operating methods of farm mutuals, and opinion as to personnel and as to possible weaknesses of and seemingly strong points in business practices.

HISTORICAL DEVELOPMENT OF FARMERS' MUTUAL FIRE INSURANCE COMPANIES IN WEST VIRGINIA²

Consideration in this section will be given to the following factors: (1) growth of farmers' mutual fire insurance companies, (2) legal development, (3) organization and operation of the West Virginia Association of Mutual Insurance Companies, and (4) activities of the Insurance Department of the Auditor's Office, State of West Virginia.

GROWTH OF FARMERS' MUTUAL FIRE INSURANCE

The Grange

The Grange actively participated in promoting early

²Contrary to general belief the West Virginia Farm Bureau does not write mutual fire insurance. Therefore detailed consideration is not given to its fire insurance activities in this study. It is believed, however, that a general description of these activities will help avoid future misunderstanding and will serve to acquaint those interested with its methods of operation.

The West Virginia Farm Bureau, through its representatives, acts as the state agent for the State Farm Fire Insurance Company of Bloomington, Illinois. This company is organized as a stock company with provisions to pay patronage dividends to policyholders when and if such dividends are earned. At first the company gave special consideration to farm property. Since many of the better farm risks already were written and since it was difficult to obtain and enforce adequate control over agents in widely scattered agricultural territory, losses were high. As a result farm fire insurance largely has been discontinued in favor of insurance on dwellings and commercial risks in cities and towns maintaining fire departments. In this way the State Farm Fire Insurance Company reports that it is able to provide its agents with an outlet for fire insurance without invading the farm fire insurance field. No data are available relative to the amount of fire insurance that has been sold by the West Virginia Farm Bureau.

farmers' mutual fire insurance companies in West Virginia.³ This interest is evidenced by the report of the State Grange Committee on cooperation in 1905, which stated:

"... We most heartily recommend the hearty cooperation of our membership in furthering the plan of mutual fire insurance, under the plan of the several mutual companies now operating in our state. Many thousands of dollars are saved to our farmers annually by these companies. . . ."

An account of the interest of the Grange in farmers' mutual insurance companies and a description of the early operating methods of these companies is given by Stemple.⁴ He reported:

"The Grange Insurance Companies are the strongest companies of any kind in the state with which the Grange has any connection. For a nominal sum a building is insured and the owner becomes a member of the company. If a building burns all members are assigned enough to pay the insurance. There is a yearly assessment to cover expense of running the company. Every five years a disinterested inspector sees all the risks, reports depreciation or increase in value of risk, and dangerous flues, or any other danger that an "Old Line" Insurance Company would not stand for and the insurance is changed or cancelled. In this way the risk is kept as near the minimum as possible. By such a company insurance [cost] is cut three-fourths. . . ."

Other Early Developments

In at least one instance a farmers' mutual fire insurance company was organized by a church group. Business at first was restricted to church members. This restriction led to serious operating problems. As a consequence membership restriction has been discontinued in favor of open membership irrespective of religious beliefs.

Periods of Incorporation, Business Status in 1939, and Business Termination

Data presented in Table 1 show periods during which farmers' mutual fire insurance companies were incorporated, business status of all incorporated farm mutuals in 1939, and period of business termination of those companies that were inactive in 1939. Although farm mutuals were incorporated over a period of years, it will be noted that the majority were started during the 20-year period beginning in 1900. Four companies were incorporated before 1900, 14 from 1900-1919, and five after 1919.

³It is interesting to note that examination of early State Grange reports indicates that many of the early Granges resorted to the practice of "begging" from their members and from members of Sister Granges for unfortunate members who had fires. Efforts to discourage this practice seems to have been responsible in part for the early sponsorship of farmers' mutual fire insurance companies by the State Grange.

⁴Forrest W. Stemple, *The West Virginia Farmer and Grange Advocate*, June, 1914, p. 2; Charleston, West Virginia.

It is significant that 10 out of the first 11 farmers' mutual fire insurance companies to incorporate were still in business in 1940 (those incorporated before 1910). In contrast only five out of the last 12 companies to incorporate were active in 1940 (those incorporated after 1910).

Table 1—Periods of Incorporation, Business Status, and Periods of Business Termination as Reported for 23 Farmers' Mutual Fire Insurance Companies in West Virginia, 1939

Period	Companies in- corporated	Business status of all incorporated companies in 1939		Business termina- tion for com- panies that were inactive in 1939
		Active	Inactive	
	<i>number</i>	<i>number</i>	<i>number</i>	<i>number</i>
Prior to 1890	2	1	1	—
1890-1894	—	—	—	—
1895-1899	2	2	—	—
1900-1904	5	5	—	—
1905-1909	2	2	—	—
1910-1914	4	3	1	1
1915-1919	3	1	2	2
1920-1924	2	1	1	—
1925-1929	1	—	1	—
1930-1934	2	—	2	1
1935-1939	—	—	—	4
Total	23	15	8	8

This situation is explained largely by the fact that the first companies located in some of the more desirable communities while those that failed often began operations in close proximity to established companies. In some instances the inadequacy of existing mutual fire insurance laws permitted disgruntled groups in established farm mutuals to start new companies. Many of these began on a "shoestring" and often no economic need for their services existed. In a few instances some of the farm mutuals terminating business activity, especially the later ones, were able to merge with existing mutual companies. Consequently many members of these companies have joined other mutuals and they thus continue to avail themselves of the protection offered by farmers' mutual fire insurance companies.

Trends in Business Operations

Data presented in Table 2 give information relating to the extent of business operations of farmers' mutual fire insurance companies and are expressed as yearly averages for five-year periods. It may be noted that **insurance written** has increased from a yearly average of \$6,059,205 for the period 1911-1914 to \$19,366,912 for the period 1935-1939. Since the period 1925-29, however, growth has not been very pronounced.

Insurance expired has increased from a yearly average of \$2,720,146 for the period 1911-1914 to \$21,376,094 for the

Table 2—Extent of Business Operations of Farmers' Mutual Fire Insurance Companies in West Virginia, Expressed as Yearly Averages of Five-Year Periods, 1911-1914 to 1935-1939

Period	Com- panies report- ing ¹	Yearly average of insurance:				
		Written	Expired	In force	Income	Fire loss
	<i>number</i>	<i>dollars</i>	<i>dollars</i>	<i>dollars</i>	<i>dollars</i>	<i>dollars</i>
² 1911-1914	13	6,059,205	2,720,146	19,633,262	73,268	42,935
1915-1919	15	4,806,897	1,733,393	24,483,080	105,031	51,968
1920-1924	17	9,950,560	5,289,637	46,187,631	180,444	87,520
1925-1929	18	17,292,669	10,689,422	71,777,590	377,747	195,076
1930-1934	18	17,199,443	21,376,094	73,454,273	381,414	215,457
1935-1939	16	19,366,912	14,653,118	70,411,531	278,788	109,579

¹Maximum number operating during the period.

²Since data for 1910 were not available, averages for this period are based on figures for four years.

period 1930-1934, only to drop to \$14,653,118 for the period 1935-1939. This marked decline is due in part to the practice among farmers of discontinuing fire insurance during depression periods and then renewing insurance as economic conditions improve, and in part to the fact that farm mutuals were impressed with the necessity of carefully sifting risks during the high-loss depression years. This situation also is reflected in examination of figures showing **insurance in force**, which increased from a yearly average of \$19,633,262 for the period 1911-1914 to \$73,454,273 for the period 1930-1934, and then declined to \$70,411,531 for the period 1935-1939. Yearly average **income** and **fire loss** likewise increased approximately fivefold during the 20 years beginning with the period 1911-1914, only to drop significantly for the five years 1935-1939 (Table 2). Detailed data of business operations by years for the period 1911-1940 are given in the Appendix (Table A).

Data pertaining to trends in the operations of farmers' mutual fire insurance companies are presented in Table 3. An increase may be noted in the percentage of insurance written to insurance in force during the five years 1935-1939. This increase is accounted for in part by the tendency, previously

Table 3—Trends in Business Operations of Farmers' Mutual Fire Insurance Companies in West Virginia, Expressed as Yearly Averages of Five-Year Periods, 1911-1914 to 1935-1939

Period	Percentage of insurance:		Income per \$100 of insurance in force	Fire loss per \$100 of insurance in force	Ratio of loss to income
	Written to insurance in force	Expired to insurance in force			
	<i>percent</i>	<i>percent</i>	<i>cents</i>	<i>cents</i>	<i>percent</i>
¹ 1911-1914	30.8	13.8	37.3	21.8	58.6
1915-1919	17.5	6.3	38.2	18.9	49.5
1920-1924	21.5	11.5	38.9	19.0	48.5
1925-1929	24.1	14.9	52.6	27.2	51.6
1930-1934	23.4	29.1	51.9	29.3	56.5
1935-1939	27.5	20.8	39.6	15.6	39.3

¹Since data for 1910 were not available, averages for this period are based on figures for four years.

referred to, of renewing insurance during periods of better times. Another contributing factor is the tendency of some companies to replace perpetual policies with policies providing for insurance for limited periods—usually one, three, or five years. These same tendencies help to explain changes in the ratio of insurance expired to insurance in force.

Income reported by farmers' mutual fire insurance companies increased from a yearly average of 37.3 cents per 100 dollars of insurance in force for the period 1911-1914 to 51.9 cents for the period 1930-1934. Careful selection of risks and more stringent inspection, however, enabled farm mutuals to reduce these charges to a yearly average of 39.6 cents for the period 1935-1939. This represents a reduction of approximately 25 percent in the cost of insurance to farmers from 1930-1934 to 1935-1939. It was made possible by reduction in fire loss from a yearly average of 27.2 cents and 29.3 cents per 100 dollars of insurance in force for the five-year periods 1925-1929 and 1930-1934, respectively, to 15.6 cents for the period 1935-1939. **The ratio of loss to income** also reflects this trend (Table 3).

Membership and Policies, and Amount of Insurance in Force, According to Size Classification

Estimates furnished by secretaries of farmers' mutual fire insurance companies indicate that in 1939 nearly 37,000 members held about 43,000 policies on which insurance in force amounted to \$76,801,000 (Table 4). That considerable difference exists between farm mutuals is brought out by examination of Table 4, which shows the distribution of members and policies, and the amount of insurance in force, for companies classified according to size on the basis of amount of insurance in force. These items also are given on a per company basis.

Of total membership and policies and of amount of insurance in force, it may be observed that slightly more than two-fifths of each is held by the two largest companies, nearly one-fourth each by those companies in the 2.1 to 4 and the 4.1 to 8 million dollar classifications, and slightly less than one-tenth by the companies in the smallest classification. Expressed another way, the average of these items for all farm mutuals was nearly one-third that of the two largest companies and between three and four times that of the five smallest companies. Since some members insured more than one set of property, and since some of the companies issue separate policies for different types of property insured, the number of policies exceeds the membership by about 17 percent.

Table 4—Estimated Number of Members and Policies, and Amount of Insurance in Force, as Reported for 15 Farmers' Mutual Fire Insurance Companies in West Virginia, Classified According to Size, 1939

Size of company	Companies	Members		Policies		Insurance in force	
		Total	Average per company	Total	Average per company	Total	Average per company
<i>millions of dollars</i>	<i>number</i>	<i>number</i>	<i>number</i>	<i>number</i>	<i>number</i>	<i>thousands</i>	<i>of dollars</i>
2 or less	5	3,566	713	4,144	829	6,661	1,332
2.1— 4	5	9,257	1,851	10,219	2,044	17,264	3,453
4.1— 8	3	8,550	2,850	9,803	3,268	19,101	6,367
8.1—12	—	—	—	—	—	—	—
Over 12	2	15,500	7,750	19,000	9,500	33,775	16,888
Total	15	36,873		43,166		76,801	
Av. all co's.			2,458		2,878		5,120

LEGAL DEVELOPMENT

Certain legal characteristics have become definitely associated with farmers' mutual fire insurance companies. For instance it is recognized that (1) membership serves in the dual capacity of insurer and insured, (2) significant particulars of the mutual policy are written into the contract, (3) premium payments often are made in whole or in part by notes deposited with the company, and (4) funds may be obtained by advanced assessments, premiums, or deferred assessments.

The first farmer's mutual fire insurance law in West Virginia was passed February 26, 1877 (Chap. 55). Article I provided that:

"Any 20 or more citizens of this state may associate themselves together for the protection of themselves against loss to their property by fire, by signing an agreement in writing to that effect, and thereby they shall become a corporation. . . ."

Other provisions included: (1) all bylaws were to be adopted by the directors; (2) boards of directors were to consist of 5 or more members; (3) membership was evidenced by notes deposited with the secretary of the company; and (4) a financial statement giving the amount of property insured, liabilities, expenses, and premium notes on hand, and all other statistical information necessary to give the members and the public full information as to the condition of the company was required to be published in one or more newspapers.

In 1908 the farmers' mutual fire insurance law underwent considerable reorganization. Among the more important new provisions included in this act were: (1) broadening the base of insurance to include damage from lightning and tornadoes; (2) limiting the methods of collecting funds to assessments; (3) prohibiting the transaction of business until companies

received a certificate of authority from the State Insurance Commissioner; (4) prohibiting the issuance of a certificate of authority until no less than 25 incorporators indicated a willingness to take out insurance amounting to at least \$25,000; (5) limiting business operations to the state; (6) restricting individuals who determine the character of the risk from receiving, as part of their compensation, a commission upon the premium from such risk; and (7) permitting the payment of dividends to members if these dividends were limited to no more than 50 percent of the company's net-cash surplus at the beginning of the year.

These changes indicated an increasing public interest in the operation of farmers' mutual fire insurance companies and a conscious effort to direct them in following the then generally accepted practices of operation.

No significant modifications were made in farmers' mutual fire insurance legislation between 1908 and 1935. In 1935 the West Virginia Association of Mutual Insurance Companies and the State Insurance Department in cooperation with the Cooperative Research and Service Division of the Farm Credit Administration, the American Mutual Alliance, and the National Association of Mutual Insurance Companies assisted in the formulation of a new law pertaining specifically to farmers' mutual fire insurance companies (Chap. 33, Art. 5).

This law provided for (1) broadening the scope of business operation to include damage from hail and windstorm; (2) requiring that companies have agreements to insure properties to the extent of \$100,000 before they begin business operations; (3) limiting risks subject to one fire to \$1,000 until total insurance exceeds \$500,000, in which case the insurance subject to one fire will be limited to one-fifth of one percent of the total insurance in force; (4) insuring property in any location (urban or rural), provided the requirements of the bylaws of the company are met; (5) control of policy contents by the State Insurance Commissioner; (6) reinsurance and joint insurance; (7) bonding of the secretary and treasurer as well as other individuals who may be required to be bonded by the company; (8) collecting funds by either premium or assessment methods; (9) filing of annual reports with the State Insurance Commissioner; and (10) reporting each individual fire to the State Fire Marshal.

These legal modifications were significant in that they give farmers' mutual fire insurance companies in the state a definite legal status and in that they set up controls to enable mutual companies to operate in accordance with established methods of mutual endeavor.

THE WEST VIRGINIA ASSOCIATION OF MUTUAL INSURANCE COMPANIES

This association was organized November 29, 1915. In 1940, 12 of the 15 farmers' mutual fire insurance companies operating in the state were members. Annual membership dues are limited to four mills for each dollar of annual receipts and seldom reach this maximum. In general, the Association has operated as a clearing house for ideas and problems relating to farmers' mutual fire insurance. In this connection particular attention at annual meetings is given to the formulation of helpful legislation; general educational and promotional work; and operating problems of local farm mutuals. The operating problems given consideration include such items as the formulation and adoption of uniform insurance policies, joint and concurrent insurance, and premium classification plans.

INSURANCE DEPARTMENT OF THE AUDITOR'S OFFICE, STATE OF WEST VIRGINIA

The West Virginia Department of Insurance has published annual summaries of business operations of farmers' mutual fire insurance companies since 1909. In general, the Department has been charged with the responsibility of assisting these companies in effecting satisfactory operating practices. Since 1935 it has obtained detailed information from annual statements filed with it by each company. Legislation passed at that time also required that the Department make audits of company books every three years. The Department further has assisted in the formulation of mutual fire insurance laws. In 1939 it inaugurated the policy of furnishing these companies with a summary of pertinent facts, designed to help them make comparisons of the effectiveness of their operating practices with those of other farm mutuals.

It is difficult to ascertain the relative significance of the various factors contributing to the historical development of farmers' mutual fire insurance companies in West Virginia. It seems evident, however, that farm mutuals have largely attained their present state of development because of long years of experience in various parts of the state under different operating conditions, and because of encouragement from such general farm organizations as the Grange. Recently such agencies as the West Virginia Association of Mutual Fire Insurance Companies, the State Insurance Department, and the Cooperative Research and Service Division of the Farm Credit Administration have been in a position to furnish helpful assistance.

Farmers' mutual fire insurance companies have made many contributions toward improved service for members at reduced

cost. There is reason to believe, however, that in West Virginia they have reached a state of more or less stabilization and maturity. Unless important changes are undertaken which will result in increased efficiency in operation, there seems to be little likelihood that these companies will be able to bring about further significant improvements in services rendered.

OPERATING PRACTICES

Wide variation exists in the operating practices followed by farmers' mutual fire insurance companies. Some insure both urban and country property, others restrict business entirely to the latter. Some insure such items as household goods, supplies, all kinds of equipment, and livestock in addition to buildings; others write insurance only on buildings. Some write lightning, hail, and tornado insurance, others limit risks only to loss from fire. Some employ elaborate systems for classifying risks, others make no classification whatever. Some operate on a premium basis, some on an advanced assessment basis, and others follow the practice of making deferred assessments. Some levy membership fees or dues, others do not. Some write perpetual policies, others limit the time of the policy—usually to one, two, three, or five years. Some both accept and cede reinsurance, others do not follow this practice.

Some write concurrent insurance, others do not. Some have worked out rigid inspection practices, others give little or no attention to this important problem. Some operate on a state-wide basis, some limit service to certain sections of the state, and still others restrict business to the county in which they are incorporated. Some pay agents on a commission basis, others pay on a fee basis. Likewise, considerable difference exists as to such general operating practices as the extent of educational work conducted, methods of property valuation, methods of determining maximum amounts of insurance to write on a single risk, adjustment procedure, and frequency of meetings of boards of directors.

Attention is given to the more important considerations relating to these practices. While it is desirable for farm mutuals to maintain flexibility in operation and organization to the extent that they can make adjustments designed to meet local situations, it is believed that numerous possibilities for improvement exist in the adoption of uniform operating practices.

KINDS OF PROPERTY INSURED AND HAZARDS COVERED

Extent of and Trends in the Proportion of Rural and Urban Mutual Fire Insurance

That a greater proportion of urban fire insurance is sold by large farmers' mutual fire insurance companies than by small

ones may be seen by examination of Table 5. The proportion of urban members and policies and the amount of insurance in force for the two largest of these companies are both approximately twice that of the average reported for all companies. In contrast the remaining size classifications report averages appreciably less than the average of these items for all companies. Secretaries of farm mutuals report that 8 percent of the fire insurance held on country property was held by people other than farmers. This item largely consisted of insurance to absentee land owners and insurance on rural schools and churches.

Table 5—Estimated Percentage Distribution of Rural and Urban Members and Policies, and Amount of Insurance in Force, as Reported for 15 Farmers' Mutual Fire Insurance Companies in West Virginia, Classified According to Size, 1939

Size of company millions of dollars	Com- panies number	Members		Policies		Insurance in force	
		Rural	Urban	Rural	Urban	Rural	Urban
		percent	percent	percent	percent	percent	percent
2 or less	5	93.4	6.6	92.4	7.6	93.2	6.8
2.1—4	5	80.5	19.5	80.1	19.9	80.6	19.4
4.1—8	3	90.8	9.2	89.4	10.6	90.7	9.3
8.1—12	..	..	..	..	..	..	..
Over 12	2	50.0	50.0	50.0	50.0	50.0	50.0
Av. ali co's.	..	71.3	28.7	70.1	29.9	70.8	29.2

Important changes have taken place during the period 1928-1940 among farmers' mutual fire insurance companies with varying proportions of rural and urban fire insurance (Table 6 and Fig. 1). Definite downward tendencies in such items as income, fire loss, and loss ratios were general for the period. With respect to insurance in force it may be observed that (a) for all farm mutuals this item increased significantly between 1928 and 1930, declined from 1930 to 1934, and increased since 1934; and (b) differences have developed as to trends in the size of classifications having varying proportions of urban and rural insurance. For example, companies with 0-10 percent urban fire insurance averaged 4.8 million dollars of insurance in force in 1930 and 3.8 million dollars in 1940. Companies with 11 to 30 percent of urban fire insurance experienced a decline from an average per company of 5.4 million dollars of insurance in force in 1930 to 2.7 million dollars in 1940. This represents a decline during the period of approximately one-fifth and one-half, respectively, for these classifications. In contrast those companies with 31 percent and over of urban fire insurance increased the amount of insurance in force from an average per company of 7.1 million dollars in 1930 to nearly 11 million dollars in 1940, a 50 percent increase.

This suggests that (a) farmers' mutual fire insurance companies needing to make the greatest adjustments, if they are

to continue in successful operation, seem to be those operating primarily in rural territory, and (b) to the extent that mutual insurance has increased during the past decade, it can be traced primarily to those companies having the highest proportion of urban fire insurance. It should be pointed out that insurance in force for the companies with the highest proportion of urban insurance, except for a slight decline in 1930, has shown a rather uniform growth for the period 1928-1940 (Fig. 1).

Table 6—Selected Operating Comparisons for 15 Farmers' Mutual Fire Insurance Companies Active in West Virginia in 1939, Classified According to the Proportion of Urban and Rural Fire Insurance, Alternate Years, 1928-1940

Classification	Average per company			
	Insurance in force	Income per \$100 insurance in force	Fire loss per \$100 insurance in force	Ratio of loss to income
	<i>1,000 dollars</i>	<i>cents</i>	<i>cents</i>	<i>percent</i>
All Companies				
1928	4,360	58.4	36.3	62.2
1930	5,555	53.2	31.9	60.0
1932	4,721	53.3	31.7	59.5
1934	4,121	49.0	18.3	37.3
1936	4,382	42.5	20.8	49.0
1938	4,978	36.1	12.3	33.9
1940	5,377	36.5	14.7	40.2
0-10 percent urban insurance ¹				
1928	3,050	59.0	45.9	77.8
1930	4,755	49.6	35.2	70.9
1932	3,894	56.4	42.7	75.7
1934	3,361	38.6	22.0	57.1
1936	3,352	34.1	18.9	55.4
1938	3,529	27.8	12.7	45.7
1940	3,788	27.6	18.2	65.8
11-30 percent urban insurance ¹				
1928	5,491	47.8	38.1	79.6
1930	5,427	45.1	46.3	102.4
1932	4,157	52.9	35.1	66.3
1934	2,428	65.1	36.7	56.4
1936	2,442	53.6	28.1	52.4
1938	2,534	44.5	22.3	50.0
1940	2,746	41.3	9.9	23.9
31 percent and over urban insurance ¹				
1928	5,521	68.2	25.2	37.0
1930	7,082	63.5	17.1	26.9
1932	6,734	50.5	18.5	36.7
1934	7,145	52.1	8.9	17.1
1936	8,125	45.2	20.1	44.4
1938	9,957	39.1	9.4	23.9
1940	10,790	40.7	13.7	33.7

¹The number of companies in the 0-10, 11-30, and 31 percent and over classifications was, respectively, 7, 4, and 4.

For the years indicated it may be observed that fire loss for farmers' mutual fire insurance companies with the highest proportion of urban insurance has been significantly less than the average for all companies. In contrast farm mutuals in the other classifications reported fire losses averaging higher than the average for all companies. At the same time those farm mutuals that write the greatest amount of urban insurance have

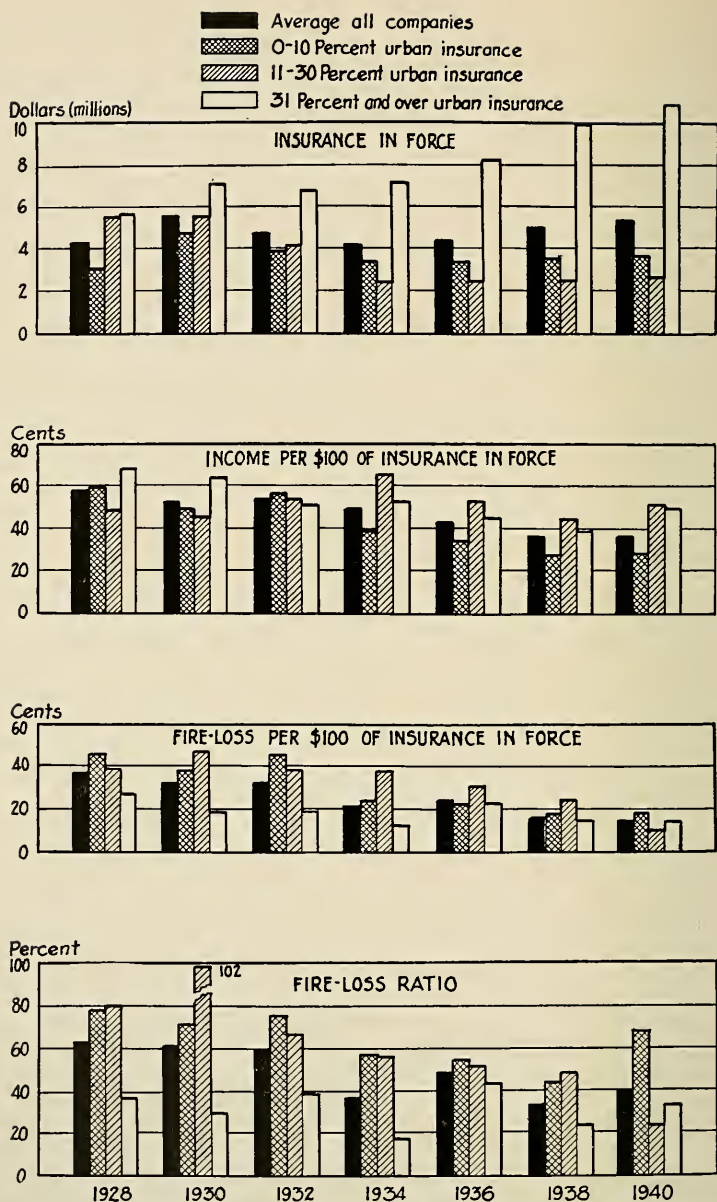


Fig. 1. Selected Operating Comparisons for Farmers' Mutual Fire Insurance Companies in West Virginia Active in 1940, Classified According to the Proportion of Rural and Urban Insurance, for Alternate Years—1928-1940

maintained a very satisfactory relationship with respect to loss ratio (percentage that fire loss is of income). While it is difficult to determine definitely the explanation for this situation, it can be accounted for in part by more and better fire protection in urban territory and in part by more rigid inspection practices followed by those companies serving urban territories.

Various items that contribute to total operating expense of farmers' mutual fire insurance companies, classified according to the proportion of urban and rural insurance, are presented in Table 7⁵. It may be observed that as the proportion of urban fire insurance increased the percentage of total operating expenses due to fire loss decreased (38.9 percent for companies having 31 percent and over of urban fire insurance as compared with 63.4 percent for those companies having 10 percent or less of urban fire insurance.)

Table 7—Operating Comparisons for 15 Farmers' Mutual Fire Insurance Companies in West Virginia, Classified According to the Proportion of Rural and Urban Fire Insurance, Three-Year Average 1936-1938

Comparison	Average all companies		Average according to proportion of urban fire insurance					
			0-10 percent		11-30 percent		31 percent and over	
	15		7		4		4	
Number of companies								
Operating statement on a basis of \$100 insurance in force	Amt.	Per-centage of total	Amt.	Per-centage of total	Amt.	Per-centage of total	Amt.	Per-centage of total
	<i>cents</i>	<i>percent</i>	<i>cents</i>	<i>percent</i>	<i>cents</i>	<i>percent</i>	<i>cents</i>	<i>percent</i>
Operating Income	36.4	...	29.9	...	47.4	...	37.7	...
Operating expenses								
Fire loss	14.4	48.5	14.4	63.4	21.5	55.7	12.4	38.9
Salaries and wages	10.4	35.0	5.4	23.8	10.8	28.0	13.7	42.9
Other items	4.9	16.5	2.9	12.8	6.3	16.3	5.8	18.2
Total	29.7	100.0	22.7	100.0	38.6	100.0	31.9	100.0
Net operating income	6.7	...	7.2	...	8.8	...	5.8	...
Net income	9.0	...	9.1	...	10.3	...	8.5	...
Other comparisons	Dollars							
Admitted assets per \$1,000 of ins. in force ¹	7.06		5.24		4.72		9.09	
Total expenses	13,924.00		7,759.00		9,615.00		29,020.00	
Ins. in force (\$1,000)	4,684.00		3,425.00		2,489.60		9,081.00	

¹The term "admitted assets" as used in this study includes all assets but (1) agents' balances on business written before Oct. 1; (2) unpaid assessments levied before Oct. 1; (3) furniture, fixtures, safes, and supplies; and (4) deposits in closed banks.

In contrast, the proportion of expenses accounted for by salaries and wages increased as urban fire insurance increased (42.9 percent of total expenses for the farmers' mutual fire insurance companies having 31 percent and over of urban fire insurance as compared with 23.8 percent for those having less than 10 percent of urban fire insurance). This suggests

⁵Detailed operating comparisons for all companies for 1938 and for the three-year period 1936-1938 are shown in the Appendix (Table B).

that additional expenditures for inspection and control have resulted in maintaining fire loss at a basis no higher than that for other farm mutuals, even though they operate over a wider territory. It also has enabled farm mutuals having the highest proportion of urban fire insurance to build up a stronger financial position than those primarily writing largely rural fire insurance. Those companies with the highest proportion of urban fire insurance reported admitted assets of \$9.09 per \$1,000 of insurance in force, compared with \$5.24 for farm mutuals having the least urban fire insurance and with \$7.06 for all companies (Table 7).

The implications of some farmers' mutual fire insurance companies in West Virginia doing considerable urban business are significant enough to receive special consideration. On the basis of data for 1935^a, only five states reported a higher proportion of urban fire insurance written by farm mutuals than was reported for such companies in West Virginia.

There is no good reason why classes of property holders other than farmers should not establish mutual fire insurance companies if they so desire. It is significant, however, that public policy, in most states, has seen fit to grant farm mutuals many special privileges. These provisions usually have included one or more of the following: (1) tax exemptions of various kinds, (2) less rigid standards for unearned premium reserves, (3) simplified annual reports, and (4) no licensing of agents.

It also should be kept in mind that even though those farm mutuals that write a large proportion of urban fire insurance report a lower average rate than those that write little or no urban fire insurance, this does not necessarily mean that their farm patrons obtain insurance at lower cost. This is especially true if companies follow a risk classification plan.

As farm mutuals invade the urban fire insurance field, it may be expected that pressure will be brought to have them comply with provisions established for other fire insurance companies (general mutuals and private) that serve urban property holders. The consequence may be that farmers cannot continue to maintain the special privileges that they now have with respect to mutual fire insurance. It may be that farmers are not justified in maintaining these privileges; and it should be recognized that writing additional urban business is likely eventually to set in motion forces that may require farm mutuals to comply with provisions for other companies. Farm policyholders will

^aV. N. Valgren, "Problems and Trends in Farmers' Mutual Fire Insurance," Cooperative Division, Farm Credit Administration. Bul. 23, p. 12, 1938.

have to decide if the advantages of having their mutuals write urban insurance are sufficient to counterbalance the long time consequences that such practice may bring about.

Hazards Covered

The scope of business activity varies considerably with farmers' mutual fire insurance companies. While all farm mutuals write insurance covering fire losses, only 10 insured losses due to lightning, and only the two largest mutuals report insuring losses due to windstorm and hail.

Most farmers' mutual fire insurance companies include rural schools and churches in the classification of rural property. Other kinds of property insured by some of these companies include (a) household goods, (b) general merchandise, (c) farm products, and (d) farm equipment and supplies. The proportion of farmers insuring livestock, equipment, and supplies, however, is extremely low (Table 8). This fact also serves to suggest that farm mutuals may be of further service to farmers by offering and encouraging this type of insurance protection.

Table 8—Extent to Which Livestock, Equipment, and Supplies Are Insured as Reported by 371 West Virginia Farmers Carrying Some Type of Fire Insurance, 1940

Kind of property	Total	Percentage of total carrying:	
		Insurance	No insurance
	<i>percent</i>	<i>percent</i>	<i>percent</i>
Livestock	100	8.4	91.6
Equipment	100	4.2	95.8
Supplies	100	5.1	94.9

Definite problems arise when farmers insure such items as livestock, equipment, and supplies. Most farm mutuals provide only blanket coverage, and as a general rule one fire does not destroy all of such property. Consequently members often get full protection without paying for it. To remedy this situation some of the farm mutuals recently have inaugurated the practice of either prorating blanket coverage according to the number of items insured or of insuring the major items separately. The uniform adoption of one or the other of these practices would help to put insurance costs on an equitable basis and ought to be encouraged. Because of the necessity of obtaining reasonably wide distribution for windstorm and hail insurance there is reason to believe that such insurance should only be handled by those farm mutuals that operate on a state-wide basis or by those companies that follow the practice of reinsuring such risks if they restrict operations to limited territories of operation.

RISK CLASSIFICATION

Five farmers' mutual fire insurance companies follow the practice of classifying risks in detail, five use a system of partial classification, and five do not classify. Because the companies that make detailed classifications are larger than the average, they account for approximately 60 percent of the total farm mutual fire insurance in force. Two companies follow, with modification, the classification of the Statistical Bureau of the State Insurance Department. The remaining companies that classified risks varied their practices from detailed classifications based on such items as type of property, use of property, distance from nearby buildings, and type of building material used, to simple classifications according to such considerations only as type of roof, and to distinction between dwellings and other buildings.

By carefully selecting risks and by organizing so as to handle only limited kinds of property, some of the farm mutuals that operate in limited territories in effect are establishing workable risk classifications. This practice gives particular attention to the "moral risk"—an element which these companies are in a particularly favorable position to judge. There is reason to believe, however, that the farm mutuals that do not classify risks usually would find it to their advantage to do so. Such a practice not only has the appeal of charging members in accordance with the risk involved, but through reduced rates on low-risk property it also encourages them to take needed safety precautions. Furthermore, it strengthens the position of farm mutuals in competition with old-line fire insurance companies, or other mutuals for that matter, in obtaining low-risk properties or in holding such properties once they are obtained.

Examination of Table 9 indicates significant comparisons with respect to operating expenses for farmers' mutual fire insurance companies that classify risks.⁷ While fire loss is slightly lower for those farm mutuals having detailed classification plans, the difference is not striking. These companies, however, average nearly twice the size of all companies. This suggests that for the companies which operate over large territories, insurance classification seems essential if they are to maintain proper control over agents and to secure internal checks enabling them to operate with fire losses comparable with those of other

⁷Valgren states that in regions where companies are able to operate at less than 20 cents per \$100 of insurance in force, the extra costs due to increased agent and clerical expense may not justify a classification plan, but that when costs are substantially higher such a plan seems advisable (see footnote, 5, *op. cit.*). This applies particularly to West Virginia conditions. In 1939 all farm mutuals had average costs of over 20 cents per \$100 of insurance in force; three reported these costs at under 30 cents, nine at between 30 and 40 cents, and three at 40 cents or over.

Table 9.—Operating Comparisons for 15 Farmers' Mutual Fire Insurance Companies in West Virginia, Classified According to the Extent of Insurance Classifications, Three-Year Average 1936-1938

Comparison	Average all companies		Average according to extent of insurance classification					
			Detailed		Partial		None	
	15		5		5		5	
Number of companies								
Operating statement on a basis of \$100 insurance in force	Amt.	Per-cent- age of total	Amt.	Per-cent- age of total	Amt.	Per-cent- age of total	Amt.	Per-cent- age of total
	<i>cents</i>	<i>percent</i>	<i>cents</i>	<i>percent</i>	<i>cents</i>	<i>percent</i>	<i>cents</i>	<i>percent</i>
Operating income	36.4	...	39.1	...	35.5	...	29.9	...
Operating expenses								
Fire loss	14.4	48.5	13.2	40.0	19.2	64.6	14.2	67.6
Salaries and wages	10.4	35.0	13.7	41.5	6.2	20.9	4.6	21.9
Other items	4.9	16.5	6.1	18.5	4.3	14.5	2.2	10.5
Total	29.7	100.0	33.0	100.0	29.7	100.0	21.0	100.0
Net operating income	6.7	...	6.1	...	5.8	...	8.9	...
Net income	9.0	...	8.7	...	7.5	...	10.2	...
Other comparisons	Dollars							
Admitted assets per \$1,000 ins. in force	7.06		8.26		4.41		5.74	
Total expenses	13,924.00		28,279.00		6,706.00		6,785.00	
Ins. in force (\$1,000)	4,684.00		8,573.00		2,258.00		3,217.00	

companies. Companies operating in restricted territories frequently find that an intimate knowledge of the risk involved enables them to operate at satisfactory costs without adopting classification plans. Even when classification plans are necessary, they result in higher outlays for such items as salaries and wages than is the case for mutuals not classifying risks.

METHODS OF COLLECTING MONEY

Four of the 15 farmers' mutual fire insurance companies that operate in the state still use the deferred assessment basis of collecting money. Six companies operate on an advanced assessment and five on the advanced premium basis. Companies that use rating bureaus follow the practice of making certain specified deductions from these rates. In the case of two companies, this deduction is 20 percent. One company follows the practice of issuing a three-year policy for the rate of 2.2 years. Another company writing insurance from one to five-year periods charges only twice as much for four-year as for one-year policies. Premium obligation notes are used by three companies. This practice in reality enables the company to protect itself against possible loss in the payments of premiums. Notes are usually based on an established percentage of the value of the property insured. Premiums then are determined in relation to the value of the premium note.

It is the general practice for farmers' mutual fire insurance companies to obtain membership fees with the initial policy.

Those farm mutuals that require renewal fees generally use such funds in whole or in part to compensate agents and to pay for possible inspection costs.

There has been a gradual trend away from the deferred-assessment basis of operation. The experience that many farm mutuals have encountered in collecting assessments, especially during periods of adverse economic conditions, seems to justify this trend. Farm mutuals have found that in many instances the deferred-assessment plan meant that in reality they gave free protection to a considerable number of policyholders during depression years. One company reported that when careful investigation was made of its risks, it was found advisable to reduce its insurance in force by approximately one-half.

The adoption of uniform rates (risks considered) would do much to enhance the financial position of many farmers' mutual fire insurance companies. After sufficient reserves were established the companies would then be in a position to pay dividends in relation to efficiency of operation. This would enable farm mutuals to make an additional appeal to and for membership.

The relationship of collection policy to operating condition is shown in Table 10. The farm mutuals that operated on the deferred-assessment basis collected 17.5 cents per \$100 of insurance in force for the period 1936-1938; those on advanced-assessment basis, 31.4 cents, and those on an advanced premium basis, 41.6 cents. Because of the fact that insurance in force

Table 10—Operating Comparisons for 15 Farmers' Mutual Fire Insurance Companies in West Virginia, Classified According to Methods of Collecting Money, Three-Year Average 1936-1938

Comparison	Average all companies		Methods of collecting money					
			Deferred assessment		Advanced assessment		Advanced premium	
Number of companies	15		4		6		5	
Operating statement on a basis of \$100 insurance in force	Amt.	Per-cent- age of total	Amt.	Per-cent- age of total	Amt.	Per-cent- age of total	Amt.	Per-cent- age of total
Operating income	<i>cents</i> 36.4	<i>percent</i> ...	<i>cents</i> 17.5	<i>percent</i> ...	<i>cents</i> 31.4	<i>percent</i> ...	<i>cents</i> 41.6	<i>percent</i> ...
Operating expenses								
Fire loss	14.4	48.5	13.9	64.7	15.7	66.5	13.2	40.0
Salaries and wages	10.4	35.0	5.6	26.0	4.6	19.5	13.7	41.5
Other items	4.9	16.5	2.0	9.3	3.3	14.0	6.1	18.5
Total	29.7	100.0	21.5	100.0	23.6	100.0	33.0	100.0
Net operating income	6.7	...	4.0	...	7.8	...	8.6	...
Net income	9.0	...	5.5	...	10.0	...	8.8	...
Other comparisons	Dollars							
Admitted assets per \$1,000 of ins. in force	7.06		4.06		5.20		8.26	
Total expenses	13,924.00		4,942.00		7,948.00		28,278.00	
Ins. in force (\$1,000)	4,684.00		2,305.00		3,359.00		8,577.00	

for the deferred assessment companies averaged only one-third that of the advanced-premium companies, most operating expenses were relatively less for the former than for the latter classification; and fire loss remained about the same. In other words, costs due to factors other than fire loss are higher for companies that operate on an advanced-premium basis, not necessarily because of this method of operation, but because of the influence of the size factor. Furthermore, it is significant that admitted assets per \$1,000 of insurance in force averaged \$4.06 for the deferred-assessment companies, \$5.20 for the advanced-assessment companies, and \$8.26 for the advanced-premium companies. This indicates one of the basic weaknesses of assessment companies, namely, that they are not in position to build up strong reserves.

A comparison of the financial position of farmers' mutual fire insurance companies in West Virginia with standards established by the Farm Credit Administration^s is shown in Table 11. Averages for farm mutuals in West Virginia are higher than the maximum standards established by the Farm Credit Administration for all but one size classification. Further examination of Table 11, however, reveals that considerable difference exists between companies in the state, and that about as many are below as are above the standards established by the Farm Credit Administration.

In the 5.1 to ten million dollar classification, for example, one farm mutual reported admitted assets equal to 5.7 times

Table 11—Comparison of the Financial Status of Farmers' Mutual Fire Insurance Companies in West Virginia with Standards Established by the Farm Credit Administration, 1938

Amount of insurance in force	Standards of the Farm Credit Administration ¹	Average for West Virginia companies	Number of companies in West Virginia		
			Total	Relation to Farm Credit Administration standards	
				Above	Below
<i>millions of dollars</i>	<i>amount of reserves</i>				
1.0 or less	. . . 4 times maximum individual risk or net retentions	2.1	1	..	1
1.1—5	. . . 3 times normal annual expenditures	4.9	9	5	4
5.1—10	. . . 2 times normal annual expenditures	3.1	3	1	2
10.1—and over	. . . 1½ times normal annual expenditures	1.6	2	2	..

¹Maximum standards are used. The term reserves and admitted assets are used interchangeably for this comparison. Reserves comprised 98.9 percent of all liabilities and net worth as reported for the 15 farm mutuals.

^sSee Valgren, *op. cit.*, p. 21.

normal annual expenditures, while two companies reported admitted assets of 1.8 and 1.9 times normal annual expenditures, respectively. In the 1.1 to five-million-dollar classification, three companies reported admitted assets of less than 1½ times normal annual expenditures, and two companies reported admitted assets of over 6 times normal annual expenditures. In one instance admitted assets were 21 times expenditures. This situation suggests the need of taking steps to improve the financial position of some farm mutuals and the possibility of other farm mutuals returning excessive collections to members. Returning excessive collections to members would (1) help to build up patronage and (2) enable the companies to resume the cooperative principle of distributing savings to the members whose business helped make such savings possible.

TERM OF POLICIES

Seven out of fifteen farmers' mutual fire insurance companies report the use of perpetual policies. One company writes only one-year policies. In this instance the secretary writes the policies, and when renewals are made, inspection also is carried out. The other companies write policies for varying periods—usually one, two, three, and five years. Because of changes (depreciation and appreciation) in the value of property, because of tendency to be lax in making revisions in valuation, and because of failure to carry out satisfactory inspection practices when perpetual policies are used, many of the farm mutuals in West Virginia are adopting the practice of writing insurance for limited periods only. On the other hand, policies on property for one year only are a source of inconvenience for members and usually mean additional clerical and agent expense for the company. General experience seems to indicate that usually better control can be maintained when policies are subjected to periodic review. This practice also has the advantage of rendering needed service to members and of safeguarding company interests.

REINSURANCE AND CONCURRENT INSURANCE

Definite possibilities exist for improvement in operating practices of farmers' mutual fire insurance companies in West Virginia with respect to policies of reinsurance and concurrent insurance. Only four out of the 15 companies operating in the state follow the practice of reinsuring their own risks and only two accept other risks for reinsurance. Not to reinsure selected risks in other companies means that small farm mutuals may be forced to turn down large but desirable risks, or, if special stress is placed on expansion, they may accept larger risks than they are in a position to carry with safety. Adoption

of uniform operating practices with respect to such factors as rates, inspection, and risk classification would enable farm mutuals to work out mutually beneficial arrangements for reinsurance.

Ten farmers' mutual fire insurance companies report writing concurrent insurance within their territory of operation and one writes such insurance outside of its operating territory. Valgren^a points out that from the standpoint of company operation it may be easier to encourage the writing of concurrent insurance in preference to working out methods for reinsurance. He further adds that such practice is not likely to enable companies to give the service that a large portion of members desire. Writing of concurrent insurance means that members frequently need two or more policies if they are to obtain adequate protection from farm mutuals.

RISK INSPECTION

Many farmers' mutual fire insurance companies do not have well-established policies of risk inspection. Two companies report yearly inspection, two, no inspection, and the rest report inspections varying from every three or five years to indefinite inspections from "time to time." To have policyholders "do their own inspection," as some companies report, may have some educational value. Such a practice can not be relied upon, however, to give the protection desired for mutual companies. Some of the larger companies employ regular full-time inspectors, while many of the smaller companies have secretaries, agents, or members of boards of directors do this work.

The practice of permitting agents to inspect the property they insure is subject to the shortcoming of encouraging conflict of interests between their personal desire for additional premiums or fees and the necessity of companies following conservative insurance practices. There also is reason to believe that inter-company cooperation in the inspection of risks could be worked out and would result in operating economies for companies. Such a practice would be dependent upon the working out of standardized inspection methods.

That definite relationships exist between inspection practices and fire loss is evidenced by operating expense data. The seven farm mutuals that practice regular inspection (every five years or oftener) reported average fire losses of 12.1 cents per \$100 dollars of insurance in force for the three-year period 1936-1938; those that reported no or irregular inspection re-

^aSee Valgren, *op. cit.*, p. 29.

ported fire losses of 16.3 cents per \$100 of insurance in force. This relationship is further substantiated by examination of data for the two companies practicing no property inspection and the two companies reporting yearly inspection. Fire loss was 14.5 cents per 100 dollars of insurance in force for the 1936-1938 period for the two companies not inspecting and only 7.4 cents for the two companies inspecting annually. Likewise, for the same period total expenses were 26.4 cents and 21.7 cents per \$100 of insurance in force, respectively. Such variations seem to justify careful consideration of maintaining and improving inspection practices by mutual fire insurance companies.

SALARY AND COMPENSATION PRACTICES

Two practices have become common with respect to methods of payment for solicitation of insurance. Seven farm mutuals pay agents on the basis of commissions which are determined according to the amount of insurance written. Eight follow the practice of paying a flat fee or some modification of this practice.

Four farm mutuals pay agents 20 percent of the premiums collected, two pay a portion (60 and 40 percent) of the entrance fee. One company (writing a perpetual policy) pays its agents \$2.25 per \$1,000 of insurance written. Variations in payments naturally are related to the type of policy written and the operating practices of the company. For example, one farm mutual pays 15 percent commission on new and renewal business outside of water protection areas and 20 percent in water protection areas.

When farmers' mutual fire insurance companies operate on a fee basis, the usual practice is to pay a fee varying from one to two dollars per application. In two instances, mileage at the rate of five cents per mile is also paid agents. One company reports paying agents a fee of 25 cents per \$100 of insurance written plus a \$2.00 application fee.

The problem of developing the most satisfactory means of writing fire insurance is a vital one for farmers' mutual fire insurance companies. Many report that such factors as moral hazards, inability to eliminate undesirable risks, and poor judgment on the part of agents are real problems confronting them in their efforts to operate efficiently. It is inevitable that, when farm mutuals employ large numbers of agents and operate over large territories, they will not always be able to exercise the control necessary for most effective operation. Even though reviewing boards or directors pass on all risks, rigid

inspection seems to be one of the best ways of checking on the integrity of agents. Even the practice of paying agents on a fee basis means that in some instances risks are assumed that are not in the best interests of the companies. To remedy such a situation, some of the companies, especially the smaller ones, follow the practice of permitting the secretary or some other official to write insurance. One company limits this function only to its board of directors.

It is a well-established principle, applying especially to the compensation policy of farm mutuals, that persons in position to determine business policies should not be paid on a commission basis, or on any basis relating to the volume of business or to expenditures. Similarly, it is not sound business policy for directors to place themselves, as they have in some instances, on company payrolls or to permit agents to sell insurance on a commission basis unless they have worked out and established definite standards to maintain strict control. While the compensation policy used will not influence a large proportion of employees, farm mutuals should take all possible steps, however, to establish practices that do not bring into conflict the personal interest for a job or for higher salaries and the company interest for efficient operation.

Secretaries of farmers' mutual fire insurance companies function, in fact, as managers and as such are usually the highest-paid employees. In 1939 there were six full-time secretaries, seven secretary-treasurers, one secretary-adjuster, and one secretary-agent—with two other secretaries doing some soliciting work. Annual salaries for 14 secretaries ranged from \$180 to \$3,000. The average was \$1,197 per year. Six received an annual salary of less than \$1,000; six, \$1,000 to \$2,000; and two, \$2,000 and over.

Wide variation exists in compensation policy for other officials and employees. A few farm mutuals make nominal provisions for salaries of treasurers, adjusters, and inspectors. Two pay full-time agents on a flat salary basis. Nine report paying directors and executive committees. Directors receive from \$2.00 per meeting to as high as \$25.00 per year with provisions for mileage varying from the usual rate of 5 cents per mile to no mileage in some instances and to as high as 15 cents per mile in other instances. Likewise, adjusters are paid in various ways. Some companies employ men for this job on a full-time basis, while others employ officers and directors on a per-diem or per-job basis with and without provisions for mileage and other expenses.

TERRITORY OF OPERATION

Wide variation also exists as to the size of territories served by farmers' mutual fire insurance companies in West Virginia. Some operate on a state-wide or near state-wide basis, some serve territories consisting of adjoining or nearby counties, and some restrict operations to two counties or less (for purposes of comparison the Northern Panhandle is considered one county). Consequently considerable duplication exists as to the number of farm mutuals operating in counties and servicing members. The number of counties according to the number of companies operating in each, as reported by secretaries of farm mutuals, was as follows:

**Number of companies
operating in each county**

1 — 2
3 — 4
5 — 6
7 — 8

**Number of
counties**

6
9
33
7

These comparisons are shown in more detail in Figure 2. It may be observed that the eight counties that have but one

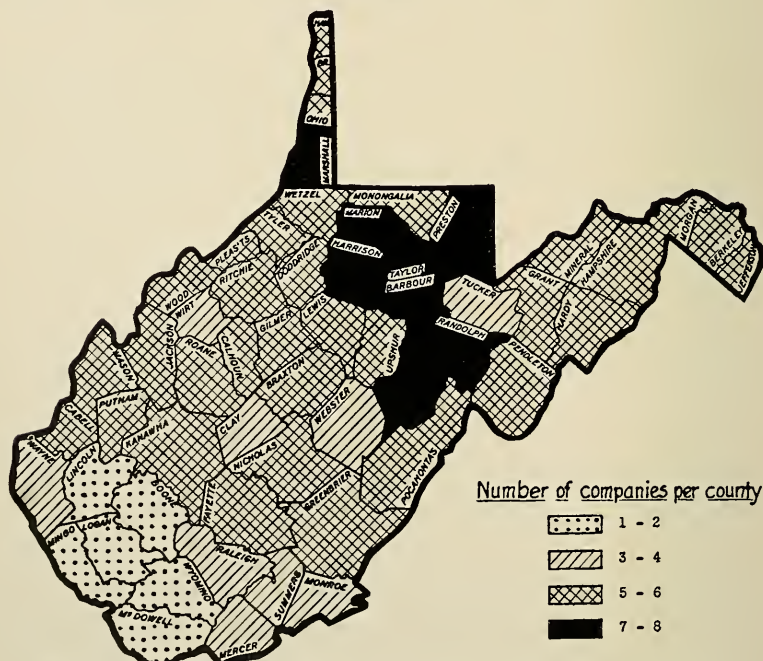


Fig. 2. Number of Farmers' Mutual Fire Insurance Companies Operating in West Virginia in 1939

or two farmers' mutual fire insurance companies operating in them constitute a block in the non-agricultural, high-risk, southern part of the state.

It also may be noted that two counties have two farm mutuals incorporated in each county. Furthermore, all but one farm mutual are in the northern third of the state. Although serviced by varying numbers of farm mutuals no companies are incorporated in or maintain headquarters in 42 counties. (Appendix, Table C.)

While detailed data are not available for a comprehensive consideration of the extent of duplication between farm mutuals, and while no information is available as to the extent to which counties are "split up" by mutuals operating in them, certain comparisons seem significant. The number of companies according to the percentage of insurance in force in 1939 within the counties in which these farm mutuals were incorporated was reported by secretaries as follows:

Percentage of insurance in force in "home" county	Number of companies
25 percent or less	5
26— 50 percent	3
51— 75 percent	1
76—100 percent	3

Much the same situation is shown by the distribution of the percentage of total insurance in force within counties in which farm mutuals were incorporated. This distribution follows:

Size classification	Number of companies reporting	Average percentage of total insurance in force within county
<i>millions of dollars</i>		
2 or less	4	74 percent
2.1— 4	3	48 percent
4.1— 8	3	18 percent
8.1—12	--	--- percent
Over 12	2	16 percent

Likewise, farmers' mutual fire insurance companies grouped according to size classification reported that the average number of counties in which they operated was 6, 14, 30, 0, and 51, respectively. Considering the size of companies, there is reason to believe that somewhere around two-thirds of all insurance sold by mutual fire insurance companies in the state is sold outside of the particular counties in which these farm mutuals were incorporated.

Another indication of the extent to which farmers' mutual fire insurance companies in West Virginia have spread operations to counties other than the one in which they were incorporated is found in data furnished by 13 companies. These

data show, according to the number of policyholders, the number of instances in which these companies had policyholders in counties other than their "home" counties. As reported by secretaries, these data were as follows:

Number of policyholders	Number of instances in which companies had policyholders in counties other than the "home" county
100 or less	160
101—200	50
201—300	11
301—400	3
Over 400	11
Unclassified	16
Total	251

Expressed on a per-company basis, these data show that the 13 farm mutuals had, on an average, policyholders in 19 counties other than the home county. Furthermore, the number of policyholders in 12 counties averaged less than 100 per county.

Considering the distribution of cities and roads, it is evident that county boundaries do not necessarily constitute economic boundaries for farmers' mutual fire insurance companies. To the extent that farm mutuals have as many as a hundred members or more in counties other than the one in which they were incorporated, they may be performing a needed service more efficiently than could be done even if county farm mutuals were organized in such counties. However, when numerous farm mutuals serve a very limited number of policyholders (less than 100 per county), they are not rendering the service that patrons have a right to expect from such companies. They may, in fact, hinder the rendering of effective service under such circumstances. The number of instances that farm mutuals had less than 100 policyholders per county, indicates the seriousness of this problem. According to distribution of policyholders, these data were as follows:

Number of policyholders	Number of instances in which companies had less than 100 policyholders in counties other than the "home" county
25 or less	35
25— 50	23
51— 75	10
76—100	12
Unclassified	80
Total	160

The influence of the various items relating to size of territory on operating expenses may be seen by examination of Table 12. It may be observed that the larger the territory

served, the higher the cost of insurance. Costs for farmers' mutual fire insurance companies operating in limited territories were less than costs for those farm mutuals operating on a state-wide basis (17.4 cents as compared with 33.4 cents per \$100 of insurance in force). This was true not because fire loss was significantly less, but because such items as salaries and wages and other items were only 30 percent as great (5.2 cents per \$100 of insurance in force as compared with 19.7 cents).

Table 12—Operating Comparisons for 15 Farmers' Mutual Fire Insurance Companies in West Virginia, Classified According to Size of Territory, Three-Year Average 1936-1938

Comparison	Average all companies		Average according to size of territory					
			Two counties or less ¹		Adjoining or nearby counties		State or regional	
Number of companies	15		3		6		6	
Operating statement on a basis of \$100 insurance in force	Amt.	Per-cent- age of total	Amt.	Per-cent- age of total	Amt.	Per-cent- age of total	Amt.	Per-cent- age of total
	<i>cents</i>	<i>percent</i>	<i>cents</i>	<i>percent</i>	<i>cents</i>	<i>percent</i>	<i>cents</i>	<i>percent</i>
Operating income	36.4	...	27.8	...	30.6	...	40.0	...
Operating expenses								
Fire loss	14.4	48.5	12.2	70.1	18.3	69.9	13.7	41.0
Salaries and wages	10.4	35.0	3.6	20.7	5.4	20.6	13.4	40.1
Other items	4.9	16.5	1.6	9.2	2.5	9.5	6.3	18.9
Total	29.7	100.0	17.4	100.0	26.2	100.0	33.4	100.0
Net operating income	6.7	...	10.4	...	4.4	...	6.6	...
Net income	9.0	...	14.4	...	6.8	...	8.5	...
Other comparisons	Dollars							
Admitted assets per \$1,000 of ins. in force	7.06		13.14		4.66		6.34	
Total expenses	13,924.00		5,826.00		6,043.00		25,852.00	
Ins. in force (\$1,000)	4,684.00		3,348.00		2,304.00		7,731.00	

¹For purposes of comparison the Northern Panhandle of the state was considered as one county.

Operating expenses for the farm mutuals operating in adjoining or nearby counties furnish an interesting comparison. Fire losses for these companies are about 50 percent higher than for companies operating in two counties or less, and 33 percent higher than for companies operating on a state-wide basis or near state-wide basis. There is reason to believe that companies operating in adjoining or nearby counties have tried to spread their activity without taking the precautions necessary to obtain adequate control of business operations. They have tried to cover territory in an effort to increase business while they have continued operating with many of the same methods employed by local companies. For example, only one of these companies reported making regular inspections. As a consequence fire loss has been higher than for farm mutuals serving either large or small territories. Those companies operating on a state-wide or near state-wide basis have been quite successful in controlling fire loss; but operating costs, because of

additional outlays for agent compensation, adjustment, and clerical work, have increased.

The wide duplication existing in the number of farmers' mutual fire insurance companies means excessive duplication in the service they render. Frequently service is poorer than would be the case if all or most of the insurance in one county were written by one company. Agents, inspectors, and adjusters for many companies travel the same road. Some cover distances of over 100 miles to render the service required. For example, one company in the western part of the state has 13 policyholders in Hampshire County (the "home" of another farm mutual), 20 in Hardy County, and 1 in Grant County. Similar situations exist for many other companies. Consequently, not only are costs higher than need be, but companies because of potential, if not actual competition, are not giving the service in some territories that policyholders in farm mutuals need and have a right to expect.

Possibilities for improvement exist through the working out of inter-company cooperation in the establishment of uniform policies. Joint action further could take the form of giving increased attention to educational work. It is possible that eventually cooperation may proceed to the point of an interchange of policies by farm mutuals where such action can be taken to advantage. Further attention to the development of reinsurance practices among state mutuals also would be helpful.

Examination of Table 13 indicates that size of territory in which farmers' mutual fire insurance companies operate is not to be confused with the size of farm mutuals as measured by the amount of insurance in force. While operating expenses were about the same for all groups of the latter classification, fire losses were a little over twice as high for the smallest classification as for the largest (23.2 cents as compared with 10.5 cents per \$100 of insurance in force). In contrast salaries and wages were only two-fifths as high (5.3 cents per \$100 of insurance in force as compared with 13.5 cents). This is in contrast with companies classified according to size of territory. They showed increased expenses with an increase of size of territory covered (Table 12). Likewise, fire loss accounted for 73.4 percent, and salaries and wages, 16.8 percent of expenses for the small companies and 35.6 percent and 45.8 percent, respectively, for the large companies. The percentage distribution of expenses for companies classified according to size of territory showed similar, but slightly less striking, trends (Table 13).

Table 13—Operating Comparisons for 15 Farmers' Mutual Fire Insurance Companies in West Virginia, Classified According to Size, Three-Year Average 1936-1938

Comparison	Average all companies		Average according to size of company ¹ (millions of dollars)							
			2 or less		2.1—4		4.1—8		over 12	
	15		5		5		3		2	
Number of companies										
Operating statement on a basis of \$100 insurance in force	Amt.	Per-cent- age of total	Amt.	Per-cent- age of total	Amt.	Per-cent- age of total	Amt.	Per-cent- age of total	Amt.	Per-cent- age of total
Operating income	<i>cents</i> 36.4	<i>percent</i> ...	<i>cents</i> 40.1	<i>percent</i> ...	<i>cents</i> 37.9	<i>percent</i> ...	<i>cents</i> 36.8	<i>percent</i> ...	<i>cents</i> 34.6	<i>percent</i> ...
Operating expenses										
Fire loss	14.4	48.5	23.2	73.4	18.2	57.6	14.3	51.8	10.5	35.6
Salaries and wages	10.4	35.0	5.3	16.8	8.9	28.2	8.4	30.4	13.5	45.8
Other items	4.9	16.5	3.1	9.8	4.5	14.2	4.9	17.8	5.5	18.6
Total	29.7	100.0	31.6	100.0	31.6	100.0	27.6	100.0	29.5	100.0
Net operat'g income	6.7	...	8.5	...	6.3	...	9.2	...	5.1	...
Net income	9.0	...	9.3	...	12.5	...	10.6	...	6.0	...
Other comparisons	Dollars									
Admitted assets per \$1,000 of ins. in force	7.06		5.14		14.13		6.18		3.99	
Total expenses	13,924.00		3,989.00		10,252.00		16,158.00		44,586.00	
Ins. in force (\$1,000)	4,684.00		1,262.00		3,241.00		5,850.00		15,098.00	

¹There were no companies in the 8.1 to 12-million-dollar classification.

GENERAL OPERATING PRACTICES

Extent of Educational Work

Six of the 15 farmers' mutual fire insurance companies in the state maintain no educational work whatever among members. The general feeling among the farm mutuals that attempt educational work is that such efforts have not been particularly successful. A common practice has been to distribute literature, to use annual meetings and annual reports as means of acquainting members with company conditions and operating policies, and to supplement this work with efforts of agents, inspectors, and directors. One company follows the practice of putting on school and fair displays. A small appropriation for the purpose of conducting carefully planned educational work might pay big dividends.

Farmers in West Virginia show little knowledge of acquaintanceship with problems and principles of insurance. This is particularly true with respect to members of mutual companies. Surprisingly few members of these companies ever attend annual meetings, have any information relating to mutual methods of organization and operation, or possess knowledge relating to basic differences between mutuals and old-line companies. Frequently no more than 25 members attend annual meetings.

It is difficult to agree with one secretary who stated that "as long as they [members] keep away from the annual meet-

ing everything is o.k. It's only when things aren't going good that they show up." This suggests that companies operating in limited territory have the best possibility of obtaining membership interest and participation in operating affairs. An understanding membership is one of the most valuable assets that a company can have. Not only will such a membership refrain from making unreasonable demands but it also is in position to acquaint members and prospective members with facts relating to problems and possibilities of mutual companies. In some instances companies might hold joint programs in some of the counties they service. Perhaps farm mutuals will have to show greater evidence of cooperation before they can expect further cooperation from policyholders. To the extent that mutual companies have established outstanding records of performance they would benefit from devising means of acquainting members with such performance. Companies also should make increased efforts to inform members as to methods of operation and organization, factors contributing to high and low fire-loss costs, and the probable consequences of adopting various operating practices.

Property Valuation and Maximum Limits per Single Risk

Farmers' mutual fire insurance companies have encountered some difficulties in evaluating property. The general practice is to leave this job to agents, with the consequence that results have not always been satisfactory, especially when the agents' fee or the extent of his commission is related to the value placed on the property to be insured.

Four farm mutuals report that they insure up to three-fourths the value of property when it is unencumbered and 9 report that they insure up to two-thirds the value of such property. Five farm mutuals make a distinction between encumbered and unencumbered property. Three reduce the value insured from three-fourths to two-thirds for encumbered property and two that insure unencumbered property at two-thirds value reduce coverage to one-half and one-third, respectively, when such property was encumbered. Most companies establish the above standards as general guides and permit some adjustments, either up or down, depending upon such factors as kind and condition of property and evaluation of moral risk.

It is difficult to determine just what farmers' mutual fire insurance companies mean by a single risk. Some farm mutuals interpret such a risk to mean all insurance held with an individual. Others look upon it as all insurance covered by one policy; still others have devised formulas giving attention

to distance from other buildings and to types of buildings to determine what constitutes a single risk (all property subject to one fire). Irrespective of how risks are determined, three companies have placed maximum limits on what they consider such risks at less than \$2,000; seven at between \$2,000 and \$3000; five at \$3,000 and over. On a size classification the average maximum risk per company was as follows:

Size classification <i>millions of dollars</i>	Maximum risk <i>dollars</i>
2 or less	2,700
2.1— 4	3,700
4.1— 8	4,500
8.1—12	-----
Over 12	4,000
Average all companies	3,633

These variations suggest the need for farm mutuals taking such steps as will result in maximum protection of financial position while at the same time rendering the services desired by members.

Adjustment Procedure

The common practice for the larger farm mutuals is to have full-time adjusters or to combine the adjustment and inspection functions. The smaller ones usually employ the secretary, board members, or policyholders, or they select disinterested parties to do this work. The importance of immediate adjustment is recognized by companies and there seems to be no evidence of dissatisfied policyholders because of poor service.

Board of Directors

Boards of directors vary in size from 6 to 12 members. Approximately one-half of the farmers' mutual fire insurance companies maintain executive committees to attend to routine practices; some meeting every month and some on call. A few boards meet only once a year; the great majority meet on call or "when needed." Some meet three or four times a year, and two companies report monthly meetings of directors. All companies operate on the principle of one vote per member. They frequently, however, permit proxy voting.

Other Considerations

Opinions expressed by secretaries of farmers' mutual fire insurance companies as to what constitutes the major operating problems confronting them were summarized as follows:

Problem	Number of farmers' mutual fire insurance companies reporting
Proper management	9
Moral hazards	6
Over valuation of property	5
Obtaining honest agents	4
Competition	4
Need for uniform rates	2
Other	3

Experience of farm mutuals indicates that management problems include such items as lack of training, extravagance with other people's funds, keeping of inadequate records, and failure to evaluate properly the possibilities and consequences of various operating practices.

Moral hazards, both among policyholders and agents, ranked second in importance as an operating problem, according to secretaries. While careful sifting of property risks is possible, the fact remains that although reasonably adequate standards of property valuation are in effect, a number of intangible factors still enter the picture when individual integrity is to be evaluated.

Not unlike farm mutuals in other sections of the country, over-valuation constitutes a serious problem for these companies in West Virginia. While this applies especially to farm mutuals which pay agents on a commission basis, it is highly possible that companies operating on this basis can maintain proper control, and they are less likely to encounter trouble with over-valuation than are other companies that give no thought to this problem. Difficulties in this respect are well summarized by one secretary who said, "We had to learn to say *No*."

Four farmers' mutual fire insurance companies each report obtaining honest agents and competition as major problems, while two companies state that uniform rates among farm mutuals would be helpful in eliminating operating difficulties. Other problems mentioned include the need for effective education, the development of adequate inspection practices, and the obtaining of more flexibility in operating methods.

CONCLUSIONS AND RECOMMENDATIONS

Possibilities for improvement in the performance of operating practices of farmers' mutual fire insurance companies depend primarily upon effecting increased efficiency and rendering better service. Further improvements are not likely to result unless farm mutuals give attention to these considerations. Attention is given in this section to possibilities for

betterment of each of the various operating practices of farm mutuals that were discussed previously.

The Nature of Insurance Written

Farmers' mutual fire insurance companies in West Virginia differ in marked respect as to the nature of insurance written. Not unlike other eastern states, the proportion that urban fire insurance is of all mutual insurance in force is relatively high—accounting for nearly 30 percent of the total. Furthermore, the amount of urban fire insurance written by farm mutuals has increased during the past decade while the amount of farm fire insurance has declined. Another characteristic of the nature of business of farm mutuals is that some provide insurance only for buildings while others, in varying degrees, write insurance covering fire loss on livestock, supplies, and equipment. In a few instances, wind and hail insurance also is written. This suggests that some farm mutuals could improve their service to members and improve their status as business institutions by increasing their scope of activity to (a) give fire insurance protection on property other than buldings, (b) take necessary steps to acquaint policyholders and potential policyholders with the need for such protection, and (c) adopt a uniform risk classification plan designed to place all fire insurance charges on an equitable basis.

Risk Classification

Less than one-half of the farmers' mutual fire insurance companies in West Virginia follow the practice of classifying risks. The wide divergence in the nature of mutual fire insurance business engaged in, the desirability of putting insurance costs on an equitable basis, and the possibility of improving service and efficiency by working out a system of uniform charges for comparable risks; all these are factors that indicate that farmers' mutual fire insurance companies would improve their service to policyholders if further consideration were given to the advantages of risk classification.

Methods of Collecting Money

Four farmers' mutual fire insurance companies in West Virginia still operate on a deferred-assessment basis. When consideration is given to the past experience of mutual companies with this method of collecting money, when it is recognized that in the future uncertain economic conditions may further accentuate the plight of farm mutuals that operate on this basis, and when recognition is given to the fact that this method of operation is not conducive to building up and maintaining a strong financial position; it is believed that those companies

that operate on an assessment basis might benefit from a re-examination of methods of collecting money and from a recognition of limitations inherent in the assessment method of operation. Furthermore all farm mutuals, regardless of means of collecting money, should make charges sufficient to enable them to build up adequate reserves.

Term of Policies

Farmers' mutual fire insurance companies vary their practice from writing perpetual insurance to policies for definite periods (one to five years). This may mean that careful consideration of the advantages of joint action by mutual companies, to the end that they adopt a uniform policy, would enable them to simplify operating procedure and improve the service rendered to members. Perpetual policies may not permit farm mutuals to exercise the control desirable while yearly policies are a source of expense for companies and of inconvenience for policyholders.

Reinsurance and Concurrent Insurance

No well-defined practice exists among farm mutuals in the state as to reinsurance and concurrent insurance. Not to cede reinsurance means that the service given members by mutual companies in many instances definitely is limited. Joint efforts in the direction of working out arrangements for developing reinsurance practices that would be mutually beneficial for companies deserve careful consideration. It would result in improvement of service to members and would do much to improve the competitive status of many mutual companies.

Risk Inspection

Not unlike the practices of farmers' mutual fire insurance companies with respect to risk classification, practices relating to risk inspection are varied. The necessity for risk inspection is closely related to operating methods and to size of territory served. Companies that operate over wide territories and that employ agents on a commission basis have found it particularly advisable to practice strict risk inspection in order to maintain proper control of fire loss. Further recognition needs to be given to the need for risk inspection and to working out standards and techniques of inspection.

Salary and Compensation Practices

Examination of salary and compensation practices gives evidence that at times the interests of employees and of the company may be in conflict. This suggests (1) need for

adequate control if compensation is on a commission basis, (2) advisability of working out methods whereby salary is in proportion to the service rendered to companies rather than in proportion to the business obtained, and (3) inauguration of practices that will prevent those individuals in position to determine business practices (the directors) from employing themselves in the company they are supposed to manage. It is easy to put oneself on the payroll when other people's money is used to pay the bill.

Territory of Operation

Consideration of the size of territories served by farmers' mutual fire insurance companies indicates very definite evidence of costly and unnecessary duplication of effort. Perhaps not over 33 percent of the insurance sold by companies is sold in the counties in which farm mutuals were incorporated. Furthermore, the two large companies in the state report that on the average they operate in 51 counties. In actual operations this means that 40 counties have 5 or more mutual companies operating within their borders. It previously has been mentioned that such a situation contributes to costly and unnecessary duplication with respect to such items as agent compensation, risk inspection, adjustment, and educational work. Furthermore, such a situation weakens the position of mutual companies in the state and tends to bring discordant elements into the picture.

The implications of such duplication of territories served by mutual fire insurance companies suggest that this problem is one that relates as much to business decisions as to operating practices. It is believed that a proper solution of this problem is of the greatest importance. Until this problem is faced by farm mutuals, they will not attain the operating efficiency that is possible, and insurance cost to policyholders will continue to be higher than is necessary. It presents a situation the solution of which will require the best thought that can be furnished by leaders of farmers' mutual fire insurance companies in the state. Solution will be possible only when leaders put the welfare of policyholders and betterment of all farm mutuals above personal gain and company prestige.

As long as farmers' mutual companies continue to operate over large sections of the state, however, it would be extremely helpful if means were worked out whereby these companies could exchange confidential information relative to individual risks. This would enable companies to refuse insurance to risks of questionable moral hazards or for other reasons. The West Virginia Association of Mutual Insurance Companies might well be used to perform this service.

General Operating Practices

Farmers' mutual fire insurance companies report varying degrees of success with the educational efforts they use. In general, it may be said that members show very little knowledge in the activities of mutual companies. To them, insurance is just insurance and until they are acquainted further with the operation of farm mutuals they are as likely to buy insurance from a friend or a "good fellow," irrespective of costs, as they are from a farmers' mutual company. It seems important that companies take steps to inform policyholders as to methods and results of operation.

After observing the operating practices of farmers' mutual fire insurance companies in West Virginia the conclusion is reached that in many instances—they operate too much as "secretary's companies." This suggests that the position of mutual companies could be improved if special efforts were directed toward having secretaries take all possible steps to acquaint directors and policyholders with the various problems confronting them in the successful operation of companies. Not only would such efforts lend stability to mutual companies, but they also would enable directors to furnish policyholders and prospective policyholders with a working knowledge of how these companies operate—a responsibility that many of them will have to assume if the best interests of farmers' mutual fire insurance companies are to be secured.

In general, it seems that the future of farmers' mutual fire insurance in West Virginia will depend primarily upon three factors and the ability of leadership to make adjustments in accordance with these factors. These factors are:

1. Giving attention to and incorporating all possibilities for increased efficiency and better service in the performance of various operating practices.

2. Eliminating costly and unnecessary duplication in services resulting from overlapping in the territories served by mutual companies (such duplication tends to increase costs to policyholders and also may result in inadequate and ineffective service).

3. Giving further attention to means of increasing policyholder participation in company operation and to bring about increased intercompany cooperation on all problems confronting farmers' mutual fire insurance companies.

APPENDIX

Table A—Business Operations of Farmers' Mutual Fire Insurance Companies in West Virginia, 1911-1940.¹

Year	Companies reporting <i>number</i>	Insurance				
		Written <i>1,000 dollars</i>	Expired <i>1,000 dollars</i>	In force <i>1,000 dollars</i>	Total income <i>1,000 dollars</i>	Fire loss <i>1,000 dollars</i>
1911	11	2,846	590	14,582	34	20
1912	12	4,748	1,457	17,150	69	36
1913	11	7,730	3,136	21,366	81	54
1914	13	8,913	5,697	25,436	109	62
1915	13	5,958	927	24,131	103	57
1916	13	6,525	1,304	24,135	91	56
1917	12	3,287	2,057	26,004	108	54
1918	15	3,650	2,549	29,911	114	52
1919	15	4,615	1,830	33,234	109	40
1920	15	6,384	3,289	36,324	119	44
1921	15	9,266	4,268	40,273	132	77
1922	15	9,481	3,867	47,663	189	95
1923	16	11,307	8,739	48,506	219	92
1924	17	13,316	6,285	58,172	243	129
1925	17	14,747	7,894	65,735	289	169
1926	17	16,215	9,688	68,230	355	154
1927	17	16,490	9,648	69,922	408	187
1928	17	18,773	10,481	66,921	395	245
1929	18	20,239	15,736	88,080	442	221
1930	17	19,099	19,250	84,767	446	270
1931	17	16,857	19,923	82,729	425	253
1932	17	16,771	25,714	72,199	382	227
1933	18	15,716	23,226	64,408	345	208
1934	17	17,554	18,767	63,169	309	119
1935	16	16,508	16,588	63,156	286	121
1936	16	16,189	13,088	66,240	282	139
1937	16	18,430	10,638	70,831	279	81
1938	16	22,333	15,348	75,031	271	92
1939	15	23,375	17,603	76,800	276	115
1940	15	25,418	21,085	80,661	294	118

¹See annual reports of the Insurance Department of the Auditor's Office, State of West Virginia.

Table B—Detailed Operating Comparisons for Farmers' Mutual Fire Insurance Companies, Expressed on the Basis of Average per Company for All Companies, 1938 and Average for 1936-1938

Item	1938					Average for 1936-1938				
	Total all companies		Average per company			Total all companies	Average per company		Per \$100 of ins. in force	Percent- age of total
			Amount	dollars	cents					
	dollars	dollars	dollars	percent	percent	dollars	dollars	cents	percent	percent
Gross premiums	271,746	18,116	---	---	---	264,240	17,616	---	---	---
Less reinsurance	— 20,084	— 1,339	---	---	---	— 16,949	— 1,130	---	---	---
Less return premiums	— 5,152	— 343	---	---	---	— 5,280	— 352	---	---	---
Net premiums	246,510	16,434	---	---	---	242,011	16,134	---	---	---
Fees and assessments	17,420	413	---	---	---	15,882	927	---	---	---
Operating income	263,930	16,847	33.9	---	---	257,893	17,061	36.4	---	---
Operating expense	96,539	6,436	12.9	48.2	---	106,220	7,081	15.1	50.8	---
Gross losses	— 4,859	— 324	— 0.6	— 2.4	---	— 5,321	— 355	— 0.7	— 2.5	---
Less reinsurance	---	---	---	---	---	---	---	---	---	---
Total net losses	91,680	6,112	12.3	45.8	---	100,899	6,726	14.4	48.3	---
Salaries and wages	26,327	1,755	3.5	13.1	---	27,402	1,827	3.9	13.1	---
Agents and other comm.	440	29	0.1	0.2	---	440	29	0.1	0.2	---
President	6,065	404	0.8	2.7	---	7,010	467	1.0	3.4	---
Secretary	13,605	907	1.8	6.8	---	14,819	988	2.1	7.1	---
Employees	5,321	354	0.8	3.0	---	4,470	298	0.6	2.1	---
Inspectors	17,802	1,187	2.4	8.9	---	16,268	1,085	2.3	7.8	---
Officers and directors	3,240	216	0.4	1.6	---	2,823	188	0.4	1.4	---
Treasurer	---	---	---	---	---	---	---	---	---	---
Total salaries & wages	72,798	4,852	9.8	36.3	---	73,232	4,882	10.4	35.1	---
Other items	---	---	---	---	---	---	---	---	---	---
Adjustment expense	1,426	95	0.2	0.7	---	1,941	129	0.3	0.9	---
Office expense	3,320	221	0.4	1.7	---	6,829	455	1.0	3.3	---
State and county taxes	2,103	140	0.3	1.0	---	2,875	192	0.3	1.4	---
Other taxes	600	40	0.1	0.3	---	1,099	73	0.1	0.5	---
Rent	2,522	168	0.3	1.3	---	2,453	164	0.4	1.2	---
Attorneys' fees	2,448	166	0.3	1.2	---	1,154	77	0.2	0.5	---
Unclassified	23,318	1,554	3.2	11.7	---	18,371	1,226	2.6	8.8	---
Total other items	35,737	2,384	4.8	17.9	---	34,722	2,316	4.9	16.6	---
Total operating exp.	200,215	13,348	26.9	100.0	---	208,853	13,924	29.7	100.0	---
Net operating income	63,715	3,499	7.0	---	---	49,040	3,136	6.7	---	---
Other income	6,191	1,162	2.4	---	---	13,900	1,058	2.3	---	---
Net income	69,906	4,661	9.4	---	---	62,940	4,194	9.0	---	---

**Table C—Name and Location of Farmers' Mutual Fire Insurance Companies
Operating in West Virginia, 1940**

Name of company	Location
Farmers Home Fire Insurance Company	Lewisburg, Greenbrier County
Farmers and Mechanics Mutual Fire Insurance Company	Martinsburg, Berkeley County
Farmers Mutual Fire Association of West Virginia	Fairmont, Marion County
Grange Mutual Fire Insurance Company of West Virginia	Philippi, Barbour County
Farmers Union Association and Fire Insurance Company	Bruceton Mills, Preston County
Harrison Company Farmers' Mutual Fire Insurance Association	Shinnston, Harrison County
Municipal Mutual Insurance Company of West Virginia	Wellsburg, Brooke County
Mutual Fire Insurance Company of West Virginia	Clarksburg, Harrison County
Mutual Protective Association	Romney, Hampshire County
Pan-Handle Farmers Mutual Insurance Company	Wheeling, Ohio County
Patrons Mutual Fire Insurance Company of West Virginia	Pt. Pleasant, Mason County
Peoples Mutual Fire Insurance Company of West Virginia	Berkeley Springs, Morgan County
Safe Insurance Company	Harrisville, Ritchie County
West Virginia Insurance Company	Harrisville, Ritchie County
Wetzel Farmers' Mutual Insurance Association	New Martinsville, Wetzel County

